

Financial Results Briefing

First Half of the Fiscal Year
Ending March 31, 2023

November 2022



First Half of the Fiscal Year Ending March 31, 2023
Summary of Earnings



Summary

(Million yen)

	September 2020 Results	September 2021 Results	September 2022 Results	YoY difference		March 2023	
				Increase/ Decrease	(%)	Forecast	Progress (%)
Net sales	25,131	23,361	31,584	8,222	35.2%	71,000	44.5%
Operating income	(51)	323	667	343	106.0%	3,000	22.2%
Ordinary income	(19)	616	832	215	35.0%	3,200	26.0%
Net income	(210)	599	756	157	26.2%	2,500	30.2%
Basic earnings per share	(6.64)	18.88	23.94	5.06	26.8%	78.49	30.5%
Total assets	80,980	81,294	91,184	9,889	12.2%	-	-
Equity ratio	49.4%	50.9%	47.7%	(3.2%)	(6.3%)	-	-

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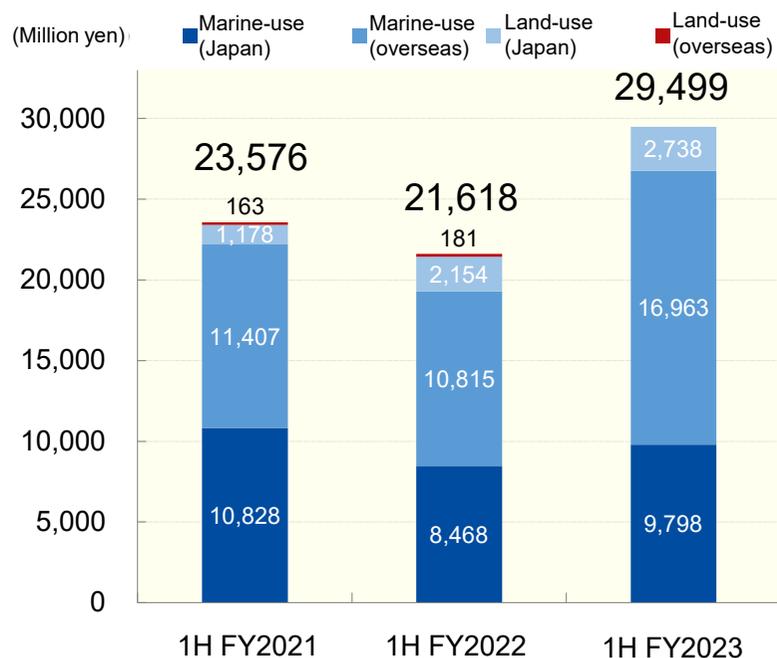
- Sales increased due to strong sales of large engines and DF engines for container ships and the yen's depreciation
- Maintenance demand recovered mainly in Southeast Asia, which had been stagnant due to restrictions on the flow of people caused by COVID-19

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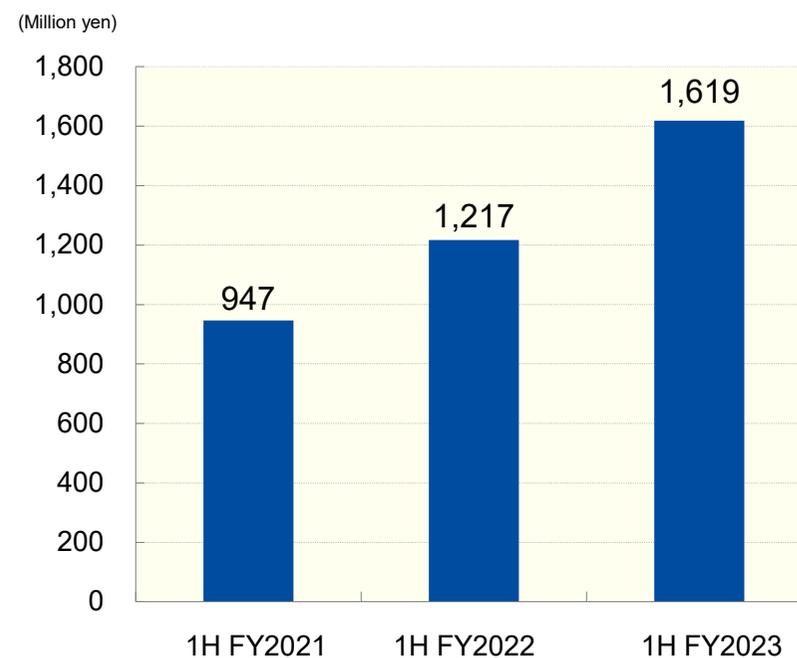
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Net Sales and Earnings for the Internal Combustion Engine Section

Net sales * including maintenance related



Earnings for the internal Combustion engine section * including maintenance related

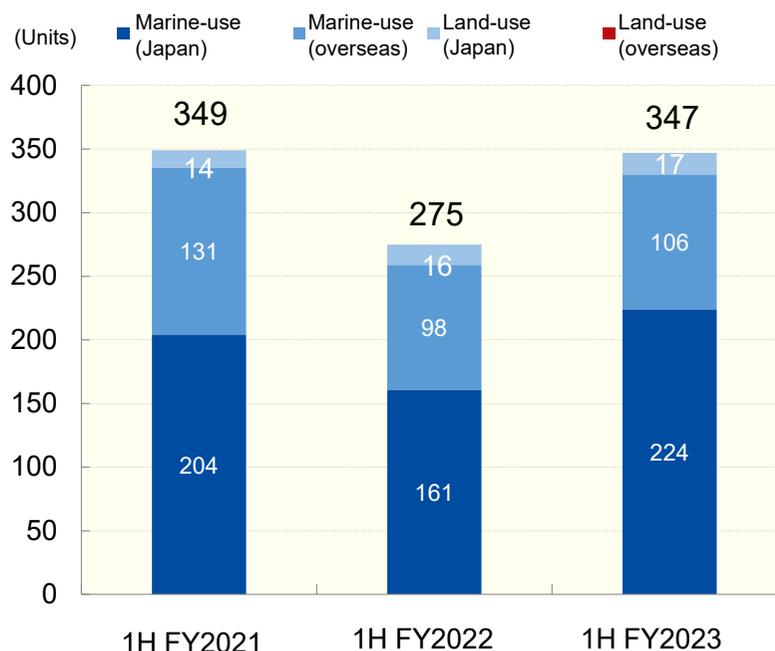


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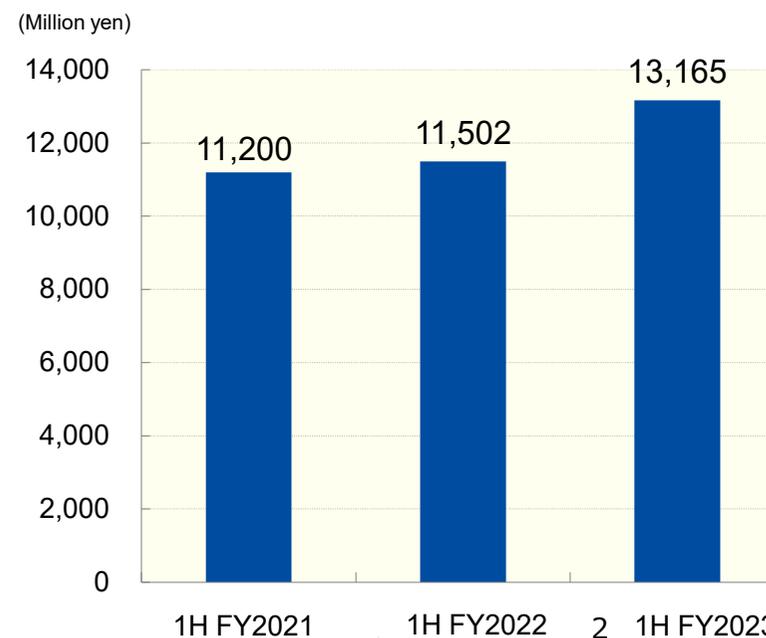
- Increased sales of vertical engines due to the enlargement of engines and the yen's depreciation
- Maintenance-related profit increased mainly overseas due to the relaxation of movement restrictions

Unit Sales and Maintenance-related Net Sales

Units sold



Maintenance-related net sales



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- Increased sales of large engines and DF engines due to strong demand for container ships
- Demand for maintenance services recovered due to the relaxation of movement restrictions, and sales increased in particular

Earnings Forecasts

(Million yen)

	March 2022 Results	March 2023	
		Forecast	Increase/decrease (%)
Net sales	57,599	71,000	23.3
Operating income	2,092	3,000	43.4
Ordinary income	2,506	3,200	27.6
Net income	1,968	2,500	27.0
Basic earnings per share (yen)	62.01	78.49	-

* Exchange rates: March 2022 (result): ¥112.35, 1H 2022 (result): ¥132.04, 2H 2022 (estimate): ¥130.00

Forecast

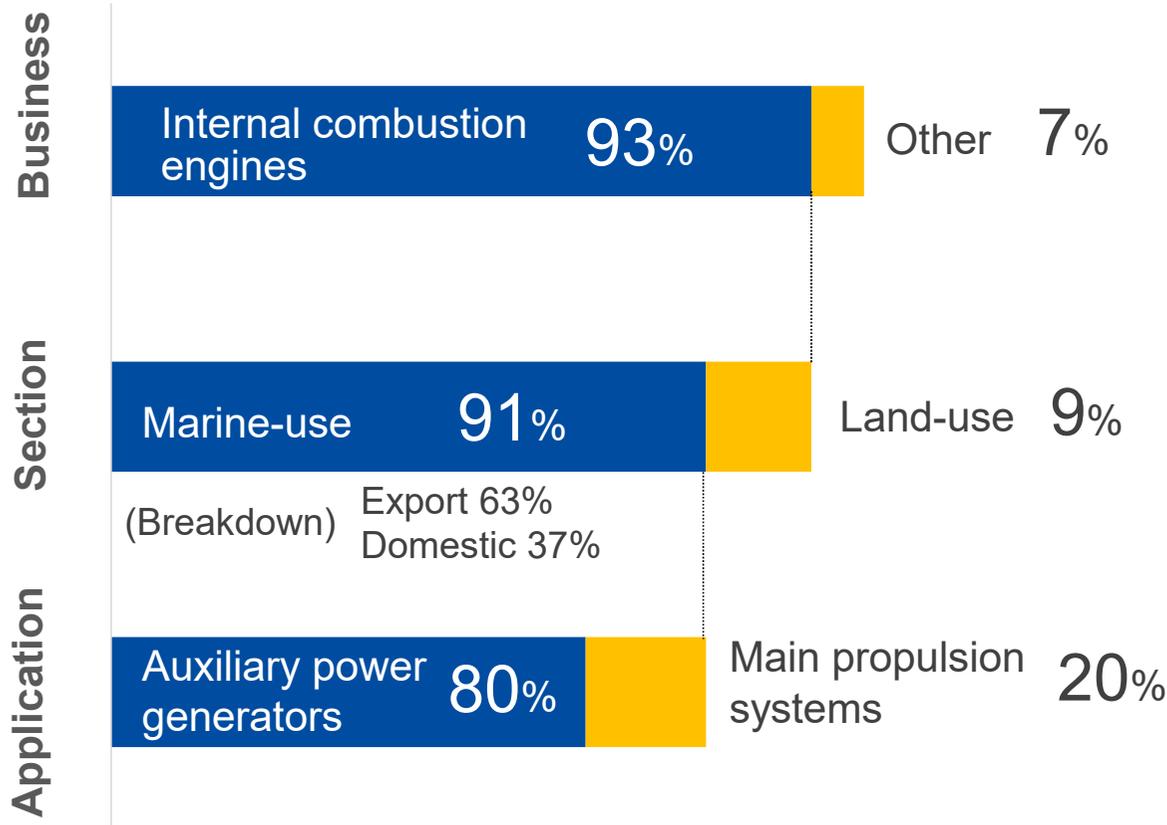
- Sales are expected to increase due to strong sales of large engines and DF engines, and profit is expected to grow due to continued strong sales of parts. They are partly due to the yen's depreciation continuing from the first half

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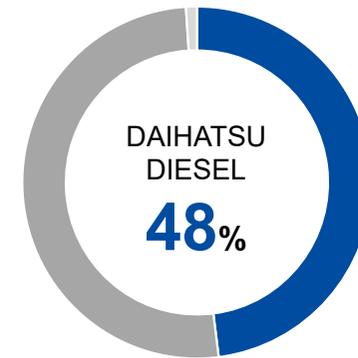
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Sales Breakdown/Market Share (end of September 2022)

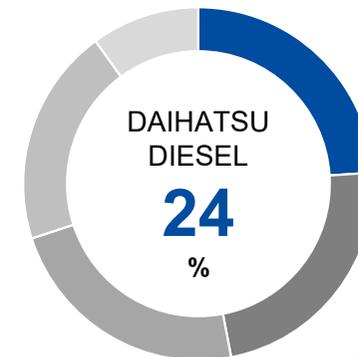
Sales Breakdown Market Share (Auxiliary Engines for Large Ocean-going Vessels)



<Share in Japan>



<Overseas market share>



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Strengthening Business/Overseas Strategy (Licensing) in the Marine-Use Maintenance Business

15 years ago Sales approx. ¥15.0 billion

Holding the line

- Business focus was selling engines to builders of new vessels.
- Sales for the after-sales-service did not really exist.



Now

Sales approx. ¥28.0 billion

Shifting to the offensive

- Promoting strategic maintenance proposals for ship-owners and ship-management customers
- Narrowing down target customers and sales expansion activities aimed at post-COVID-19 demand recovery

Issues for the future

- Material procurement and sales price strategies in anticipation of higher raw material prices
- Build an abnormality diagnosis and maintenance support system by accumulating customer data using DX
- Securing demand for after-sales services through the development of new models that take into account GHG emission regulations

Licensing (in China)

- Contract partner since 1982. Contract renewal for 40th anniversary in 2022
- Granting of rights for manufacture and marketing of certain classes of internal combustion engines
- Newly entered into a contract alliance for large engines and expanding the range of target models
Technology tie-up is being promoted with a view to creating engines that use new fuels
- Supporting ocean-going vessel order receipts to further expand market share

Anqing CSSC Diesel Engine Co., Ltd.

Anqing Diesel

Anhui Province, China (Yangtze River Basin, 600 km from Shanghai)

Shaanxi Diesel Engine Heavy Industry Co., Ltd.

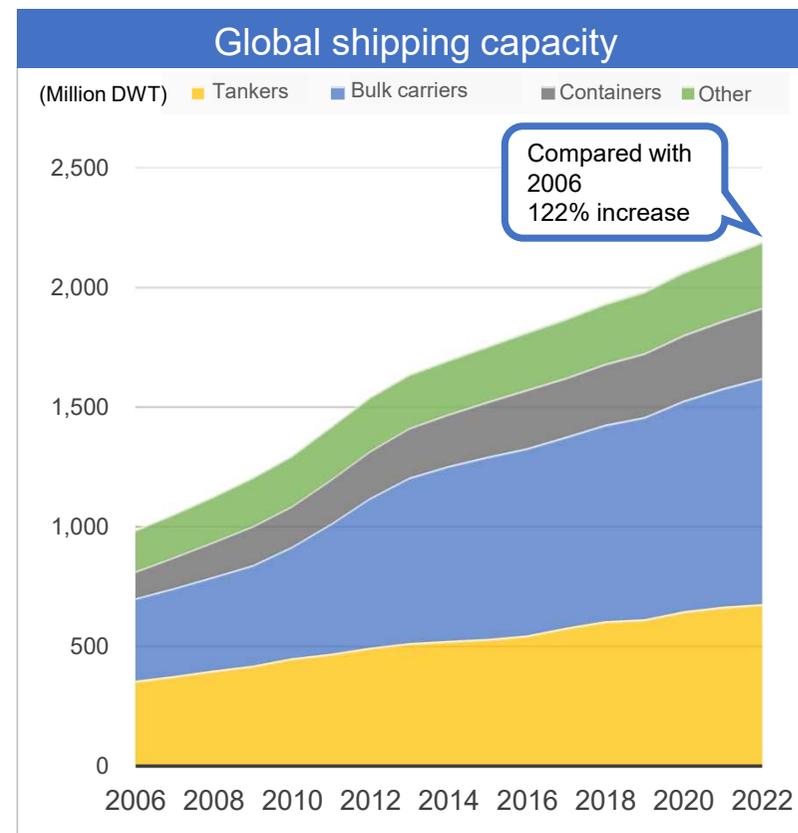
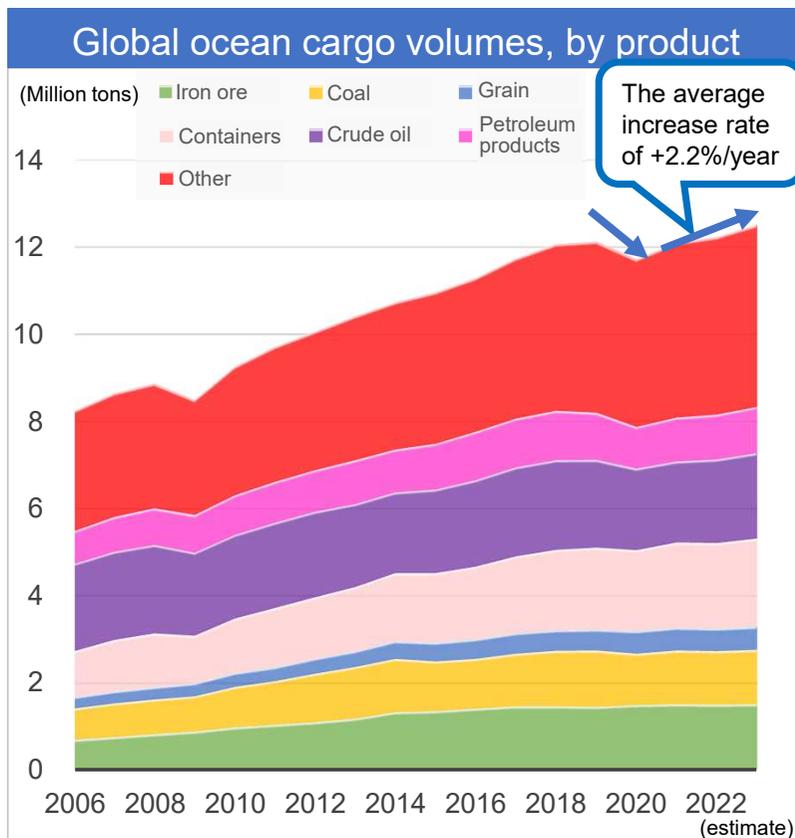
Shaanxi Diesel

Shaanxi Province, China (50 km from Xi'an)

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Market Trend for Marine Cargo



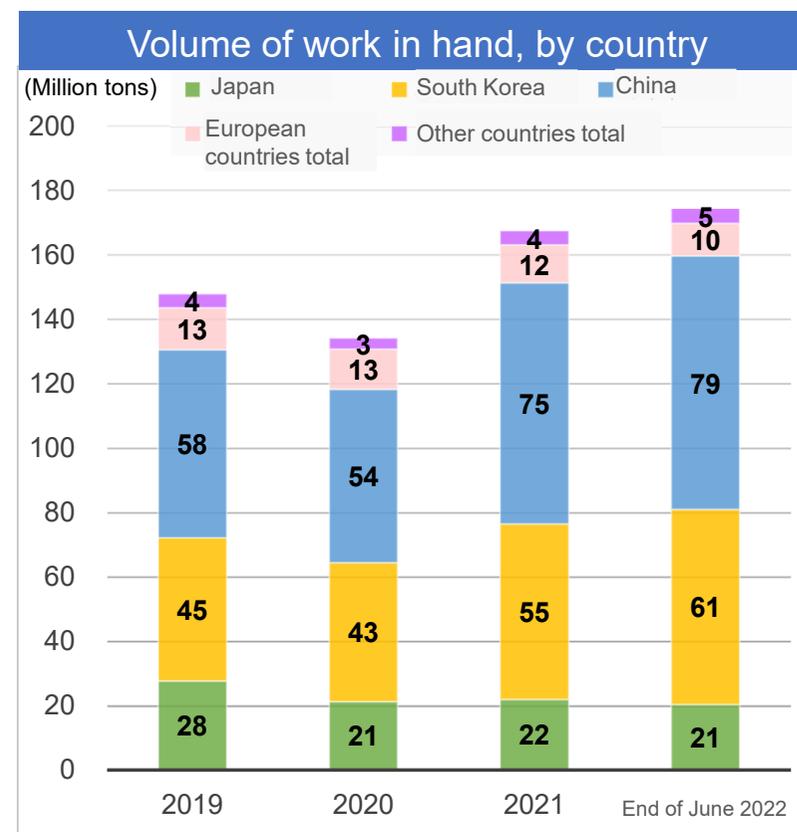
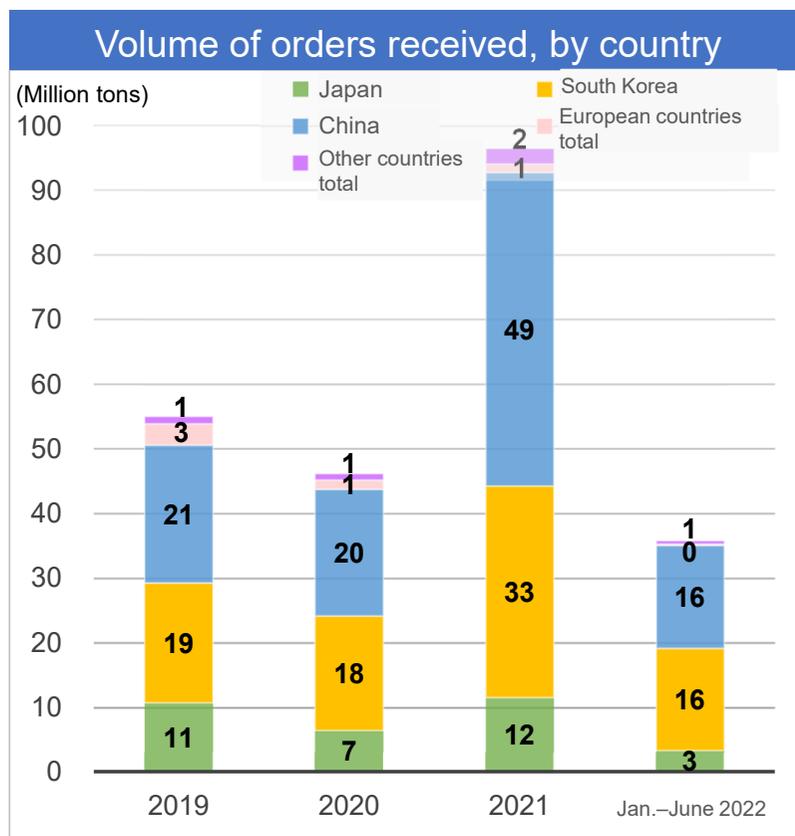
Source: The Shipbuilders' Association of Japan

- With the growing trend in shipping capacity in line with the increase in ocean cargo volumes, maintenance demand recovered.

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Market Trends for Newbuild Vessels



Source: The Shipbuilders' Association of Japan

- The volume of work in hand trended downwards from fiscal 2019, except in China, due to the COVID-19 crisis, but the trend is for a rapid recovery beginning in 2021. In China, orders increased sharply in 2021 but have begun to show signs of abating in 2022

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Daihatsu Diesel Mid- to Long-Term Vision

POWER! FOR **ALL** beyond 2030

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Value Creation We Have Achieved

- ① Building a global network to build a service structure for the international market
- ② Developing overseas markets and increasing brand share through the original licensing business
- ③ Developing and marketing highly reliable, high-performance, and low-emission engines
- ④ Providing engine peripherals and digital solutions
- ⑤ Timely supply to meet demand via increased production capacity

Course of Action for Goal: Mission

POWER! FOR ALL beyond 2030

Achieving two missions: balance between
a prosperous society and the natural environment.

**SUPPORT
THE SAFETY AND
SECURITY OF
PEOPLE'S LIVES.**

We are part of the social infrastructure
of the sea and land.



**PROTECT THE
RICH NATURAL
ENVIRONMENT.**

We will strive to switch to green energy to
confront global environmental issues.



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Course of Action for Goal: TARGET

- Commercialization of new fuel-compatible engines
- Construction of a servitization business
(using products to sell something as a service, not a one-off sale)



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Growth Strategy

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TARGET2030

Business
Strategy

ESG Strategy

Performance
Target
Investment Plan

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Business Strategy

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Business Strategy: Marine Engine Business



**NET
ZERO
Emission**

Challenge to achieve
net zero emissions



Developing engines that use new fuels

- Methanol combustion engines
Aim to ship commercial engines by the end of 2025
- Ammonia combustion engines
Aim to ship commercial engines in the late 2020s
- Hydrogen combustion engines Promote the early establishment
- Enhancement of technology to remove nitrogen oxide, etc.
- Optimization of engine operating conditions
(enhancement of sensing and control technologies)



Expanding sales of dual fuel (DF) engines

- Acquisition of technologies for next-generation engines that use new fuels



Strengthening and expanding the licensing business

- Strengthening and expanding after-sales maintenance systems

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Business Strategy: Land Engine Business



**SOCIAL
INFRA**
infrastructure
Contributing to
social infrastructure
development



Strengthening and expanding engines for pump drive and power supply

- Contributing to infrastructure facilities in the event of a disaster, etc.



Increasing market share in areas with power shortages

- Achieving a stable supply of electricity by providing engines to power-generating plants, mainly in Southeast Asia



Expanding the engineering business

- Strengthening and expanding OEM sales in addition to engine installation, construction, and maintenance to provide optimal solutions

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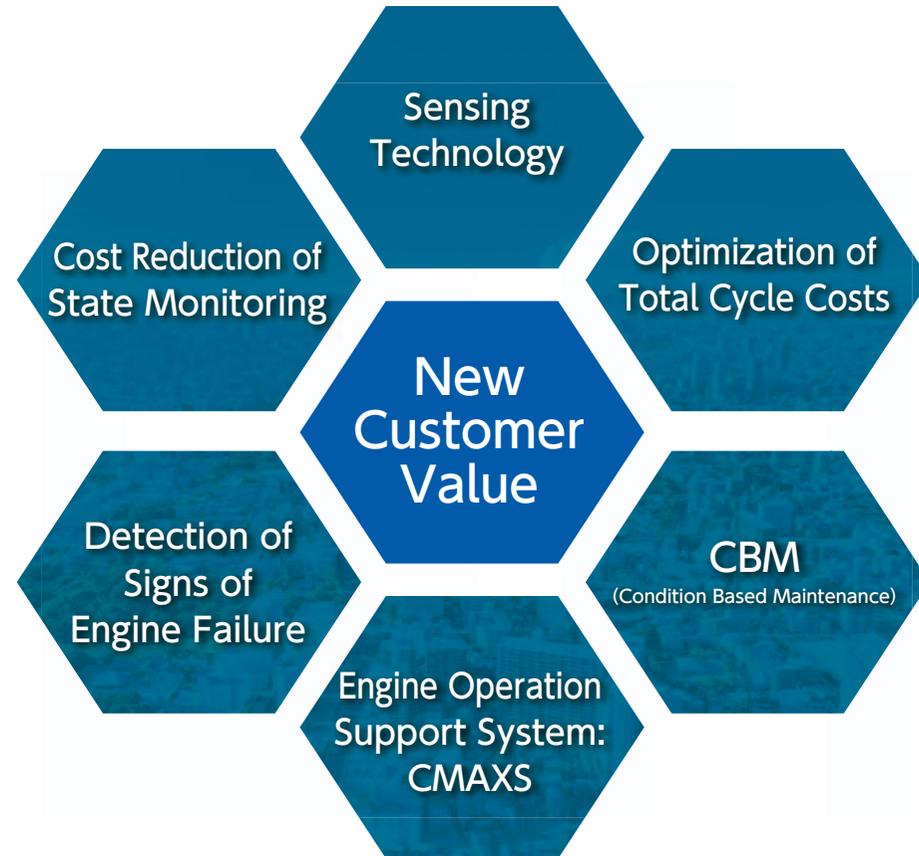
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Business Strategy: Digital Support Business



Development of digital support business

- Analyze navigating data with AI to propose accurate services
- Development of technology to monitor engine condition and enhancement of failure prediction and diagnosis technology using AI
- Acceleration of comprehensive maintenance contracts, including maintenance support and crew training



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ESG Strategy

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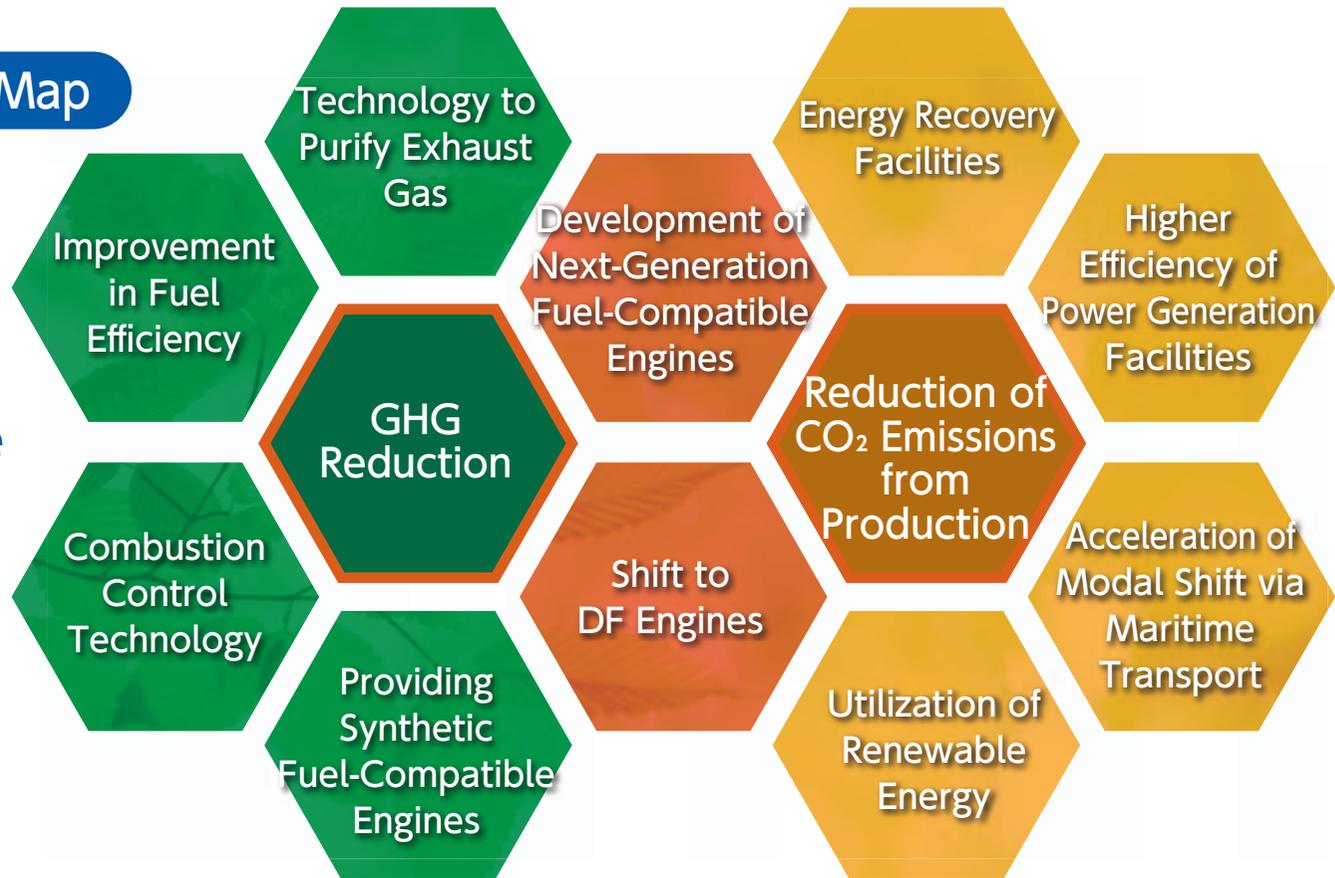
ESG Strategy

Realization of a Sustainable Society and Enhancement of Corporate Value



Environment HEX Map

In order to realize a sustainable and prosperous society, the Company will tackle a variety of social and technological issues toward 2050



ESG Strategy

Realization of a Sustainable Society and Enhancement of Corporate Value

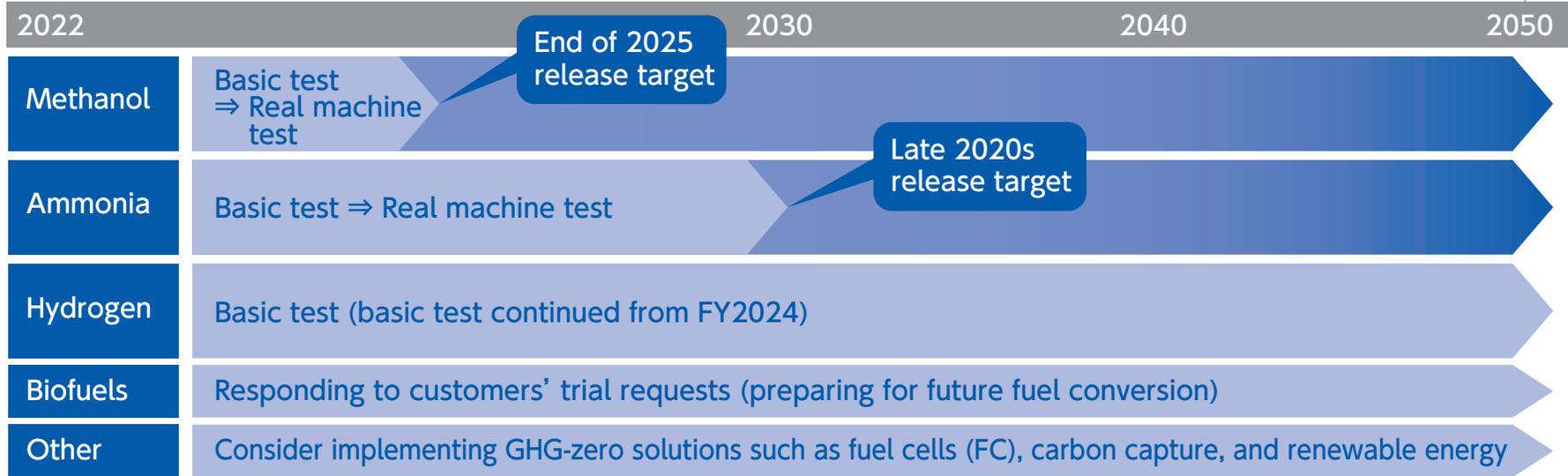


Reduction of GHG from Products

- Achievement of the world's highest level of combustion efficiency with ammonia-fueled and next-generation gas-fueled engines
- Enhancement of exhaust gas purification technology
- Provision of various synthetic fuel-compatible engines

Net zero emissions

Roadmap for Reduction of GHG from Products



ESG Strategy

Realization of a Sustainable Society and Enhancement of Corporate Value

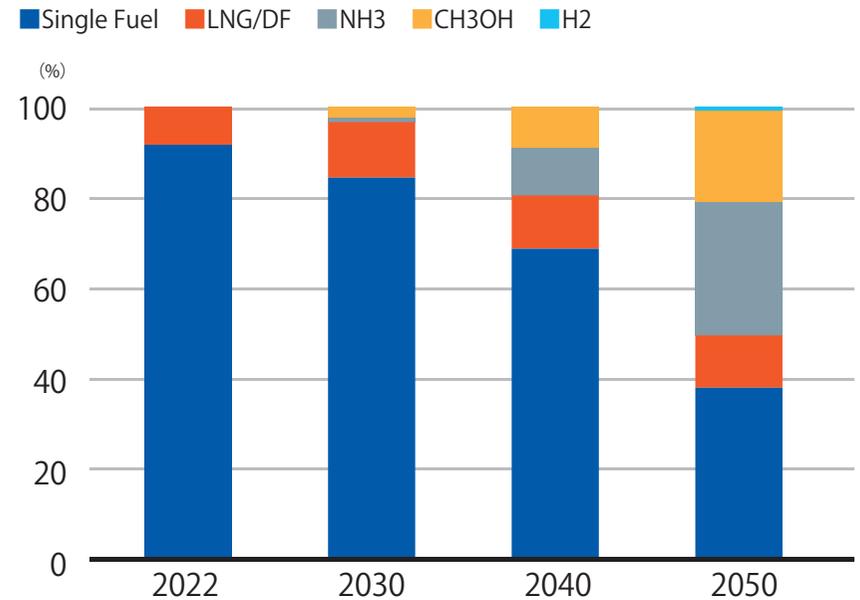


Reduction of CO₂ Emissions from Shipped Engines

- In FY2050, 50% of the total shipments of engines are compatible with new fuels
- Conventional diesel engines are compatible with biofuels, etc.



Prospects for fuel conversion by 2050 (estimated)



ESG Strategy

Realization of a Sustainable Society and Enhancement of Corporate Value

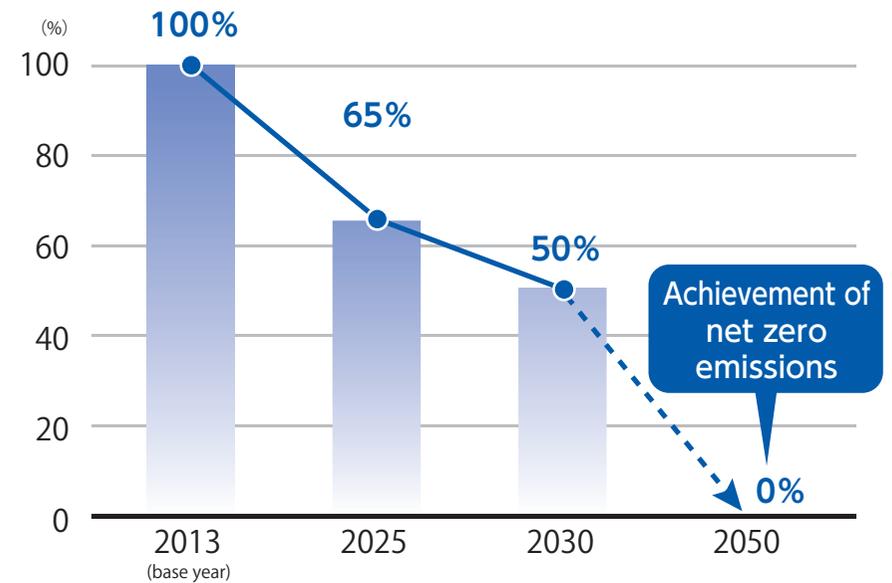


Reduction of CO₂ Emissions from Production

- Reduce CO₂ emissions from production by 35% from FY2013 level in FY2025
- Reduce CO₂ emissions from production by at least 50% from FY2013 level in FY2030
- Aim for net zero emissions in FY2050



Mid- to long-term targets for reducing CO₂ emissions from production



ESG Strategy

Realization of a Sustainable Society and Enhancement of Corporate Value



Reduction of CO₂ Emissions from Logistics

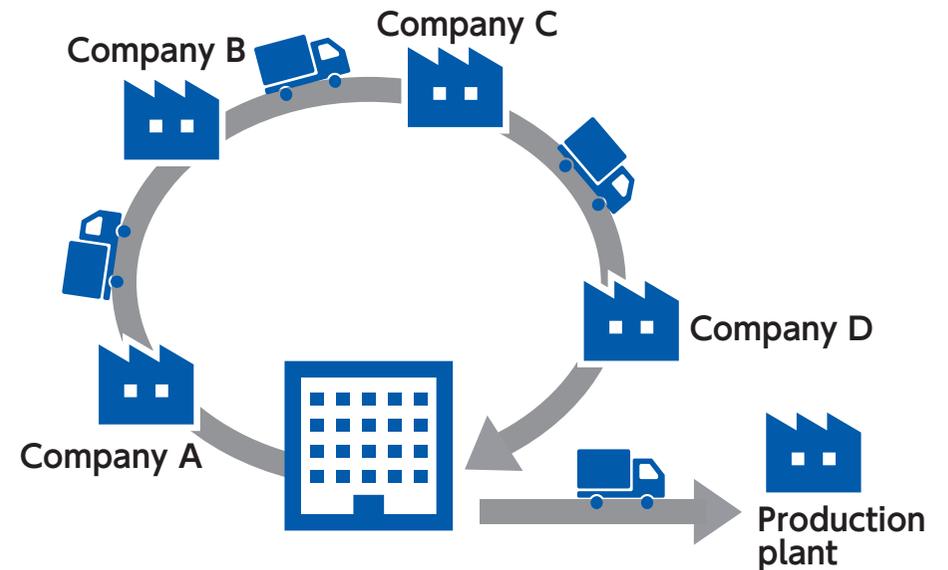
Modal shift

- Engine shipments from dedicated berths at the Himeji Factory
- Use rail container transportation



Milk run

- Cyclic collection of delivered parts



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ESG Strategy

Realization of a Sustainable Society and
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Improving Safety and Personnel Strategy

Safety initiatives

The Company places the highest priority on ensuring safety and health in all its business activities and promotes creating a safe and comfortable working environment.

- Fostering a safety culture
- Promotion of health management



Strengthening, expanding and fostering human capital

The Company will accelerate investment in human resources, which is the most important asset for realizing the Company's purpose.

- Human capital management
 - Securing versatile human resources for new business areas
 - Fostering advanced professional human resources and next-generation leaders
- Promoting diversity
 - Providing opportunities to utilize diverse human resources and maximize their capabilities
- Respect for human rights
 - Fostering a culture and promoting activities that respect the human rights of all people involved in business activities
- Promotion of work-life balance
 - Fostering work-style reform
 - Promotion of creating a rewarding work environment
- Social contribution activities
 - Continue food bank activities, zero marine waste activities, and social contribution activities

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ESG Strategy

Realization of a Sustainable Society and
Enhancement of Corporate Value



Governance Reform

Corporate governance policies

The Company believes that it is important to conduct business activities in a highly transparent manner and act in a fair and sincere manner promptly.

- Strengthening corporate governance
- Ensuring thorough compliance
- Strengthening risk management
- Organizational culture reform



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**Performance Target and
Investment Plan**

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Performance Target and Investment Plan

Management Target (TARGET 2030)

FY2021 Net sales 57.6 billion yen
Operating income 2.1 billion yen

FY2030 Net sales 80.0 billion yen
Operating income 4.0 billion yen

Management Target (TARGET 2050)

FY2050 Net sales 120.0 billion yen
Operating income 24.0 billion yen

Targets: Ratio of engines that use new fuels is 50% or more;
Ratio of servitization business sales is 40% or more;
Operating income ratio of 20%

【Consolidated Financial Results】 (Million yen)

	Net sales	Operating income
FY2021	57,599	2,092
FY2030	80,000	4,000

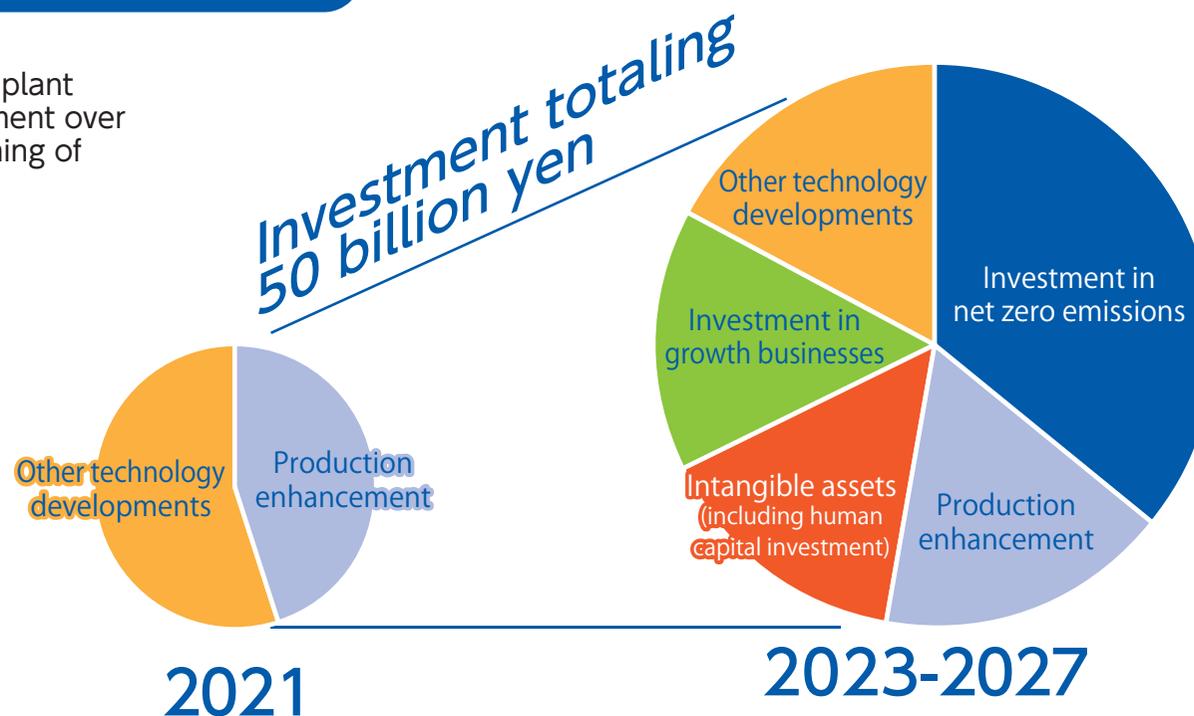
【Consolidated Financial Results】 (Million yen)

	Net sales	Operating income
FY2050	120,000	24,000

Performance Target · Investment Plan

Investment in Growth Infrastructure

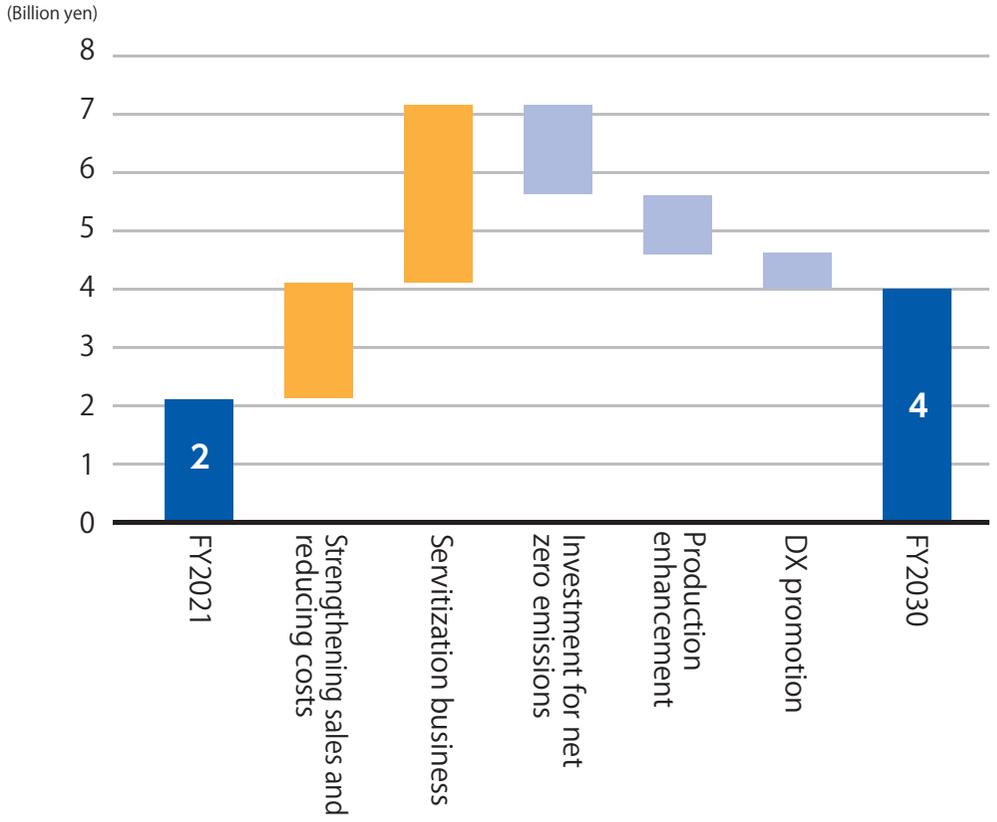
- Double capital investment
- Construct a new fuel-compatible plant
- Increase in human capital investment over the next five years, including training of next-generation managers
- Expand group size to 1,400-employee level by 2030



Performance Target · Investment Plan

Management Target (Operating Income)

Aiming to achieve TARGET 2030, achieving operating income of 4 billion yen in FY2030



Performance Target · Investment Plan

Shareholder Return

The Company's basic policy is to secure profits while making up-front investments to strengthen its corporate structure in the future, and to continuously and stably return profits to shareholders.

TARGET 2050



Achieve net zero emissions
while accelerating selling services
as a power supply company that
leads to the future

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